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RUEHKA/AMEMBASSY DHAKA PRIORITY 0047
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 2916
RUEHLO/AMEMBASSY LONDON PRIORITY 4323
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C O N F I D E N T I A L KATHMANDU 002268

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SUBJECT: GOVERNMENT BACKS DOWN AFTER PROTESTS OVER
PETROLEUM PRICES

Classified By: Ambassador James F. Moriarty. Reasons 1.4 (b/d).

Summary

¶1. (C) The poorly handled attempt by the Government of Nepal (GON) on August 18 to bring its subsidized rates for petroleum products more in line with world prices ended with a complete reversal on August 20. Street protests in the 10-20,000 person range in Kathmandu on August 19 and 20 compelled the government to lower the prices back to their old levels. In addition to complicating the GON's economic policy by demonstrating the government's low tolerance for public protest, the incident may have also encouraged the Maoists to take to the streets again, and soon. End Summary.

Background

¶2. (C) The Nepal Oil Corporation (NOC) is a government-owned monopoly that controls petroleum import and distribution for Nepal. The NOC in turn imports all of its petroleum products from the Indian Oil Corporation (IOC). It uses its income from the sale of petroleum products in the domestic market to pay its monthly bill from the IOC. Since early 2005, however, as the world price of oil skyrocketed, the GON failed to raise prices for oil products. The result is an unsustainable domestic subsidy and an ever growing debt to the IOC. On August 14, the NOC posted a monthly loss of USD 11 million. The NOC also owes a debt of approximately USD 120 million to the Indian Oil Corporation (IOC), and this debt is rising by USD 350,000/day. In early August, an IOC team came to Nepal to discuss the debt situation with representatives of the NOC. The IOC team asked the NOC to begin a payment schedule to the IOC and reschedule outstanding debt, with interest. According to NOC officials, the IOC informally gave the NOC a two-month deadline for payment.

GON Submits to Pressure From Public Demonstrations

¶3. (SBU) On August 18, without any advance notification, the GON raised the price of petroleum products. The price of gasoline rose from Nepali Rupees (NR) 67.25/liter to NR

84.25/liter, diesel from NR 50.47/liter to 59.08/liter, and cooking gas from NR 900/cylinder to NR 1,000/cylinder. On the morning of August 19, demonstrations spontaneously erupted around Kathmandu to protest the price increase. Nepal Police estimated the crowds at nearly 10,000, although RSO suspects the actual number was slightly lower. Demonstrators threw stones at vehicles, blocked streets, and burned tires. On August 20, the demonstrations continued, with police estimating the crowds at 15,000-20,000. The demonstrations became progressively more violent, with protesters hurling stones at vehicles and pedestrians, burning vehicles that were out during the demonstrations, and blocking major intersections throughout the city with burning tires. On the evening of August 20, bowing to public pressure, the GON decided to lower the prices of petroleum products back to their original levels. Demonstrations effectively ended after the GON decision.

Political Party Leaders Unhappy with GON Decisions

14. (C) Jhalanath Khanal, Central Committee Member of the Communist Party of Nepal-United Marxist Leninist (CPN-UML), stressed that major decisions, like the one to raise petrol prices, should not have been made by the GON without consulting the Seven-Party Alliance (SPA) and the Maoists. Khanal said that the GON should consult with the Maoists before making any "decisions on national issues" so the Maoists would not take to the streets. Sarita Giri, Central Committee Member of the Nepal Sadbhavana Party-Anandidevi (NSP-A), stated that the GON's decision to raise prices without consultation with the SPA or the Maoists was "immature." She worried that such immature decisions "only help the reactionaries and the Maoists" because they saw that going to the streets would cause the GON to cave in on

important issues.

More Problems on the Horizon?

15. (C) Benu Bikram Pant, Deputy General Manager for Finance at the NOC, told Emboff that the ability to pay the outstanding debt to the IOC had gone beyond the control of the NOC. IOC officials told Pant that if the question of outstanding debt was not settled, and the issue were not solved on political levels, the IOC would stop the supply of petroleum products to Nepal completely. The GON convened a committee to look into and address the situation with the NOC. The committee's findings are expected within one month. However, Nepali governments in the past have not implemented recommendations from such committees.

Comment

16. (C) The GON is in an increasingly difficult situation on the petroleum front. If the GON increases prices to match the cost of petroleum, there will be a public outcry. On the other hand, if the GON does not find another way to pay off the debt, the IOC may cut off supplies to Nepal. Either choice could have disastrous ramifications for the GON, especially at this critical time during negotiations with the Maoists. The GON's decision to give in to the demands of the protestors presumably prevented the Maoists from turning the demonstrations into a massive anti-government effort. At the same time, however, the GON's retreat will reinforce the Maoist belief that mass demonstrations are the way to bring the GON to heel. Although it is still not clear who was behind the demonstrations, there are at least some sources who believe the Maoists, certainly their student wing, had gotten involved by August 20. Further mass demonstrations could be in Kathmandu's future.

MORIARTY